

The Dilemma of Goodwill Measurement from the Perspective of Marxism

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Abstract: Marxist philosophy, as a powerful theoretical tool for understanding and changing the world, its integration and application with the socialist market economy system, and the application of scientific theory of unity of opposites and practical theory to deeply analyze the difficulties of continuing to measure goodwill at the current stage, have an undeniable positive effect on promoting the development of China's accounting system. This article is based on Marxist materialist epistemology and dialectics. Firstly, it reviews the development process of subsequent measurement of goodwill in recent years and analyzes its rationality. Secondly, it points out that differences in the goals of financial reporting are the key reasons for the dilemma of goodwill measurement. Finally, combined with the "management activity theory", it proposes solutions to explore the dilemma of goodwill measurement from the perspective of accounting essence.

Keywords: Marxist theory, accounting management activities, goodwill measurement

Since 2018, the frequent occurrence of goodwill issues has led to serious questioning of its impairment treatment method, which has been identified as the core factor causing goodwill risk. There is a heated debate among people about whether goodwill should continue to be measured through impairment or converted to amortization, which has become a current focus of discussion, forcing the accounting field to intensify research on subsequent measurement methods for goodwill. Despite significant efforts by international accounting standard setting bodies (IASB and FASB) to extensively gather academic and practical opinions and engage in in-depth discussions, consensus has yet to be formed. At present, research on this issue is still stuck in a indecisive and unpredictable stalemate.

Marxist philosophy, as a theory that covers the universal laws of nature, social life, and thought processes, has constructed a complete scientific framework. While adhering to the socialist market economy, we need to apply the knowledge and methodology of Marxism to guide our thinking and practice. The integration of Marxist theory and accounting practice is the fundamental need to establish a theoretically sound accounting system. Adopting Marxist dialectical thinking to deeply analyze the problems and causes of goodwill evaluation in China plays a crucial role in formulating reasonable accounting standards and promoting the progress of the accounting system. Starting from the basic viewpoints of Marxist materialist epistemology and dialectics, this article analyzes the development process and key reasons of the subsequent measurement of goodwill in China, and proposes a solution perspective based on the theory of management activities.

I. The Development and Changes of Subsequent Measurement of Goodwill

Epistemology is based on science, and science is guided by epistemology. When conducting accounting research, dialectical materialism and epistemology should be used as the guiding principles for understanding goodwill. Based on the practical experience accumulated in the accounting profession, a precise accounting theoretical system is organized and developed, which is used to guide specific accounting practice activities. Furthermore, newly formed accounting practice skills need to be improved through practical business testing. Taking the accounting treatment of goodwill as an example, a virtuous development cycle and knowledge growth structure are formed: "Accounting practice for goodwill - building accounting concepts related to goodwill - and then transforming into accounting practice for goodwill..." Through this cycle, the understanding of the essence of accounting activities and goodwill disposal methods is gradually deepened.

The development trend of economic and trade, the rise of cross-border mergers and acquisitions of enterprises, and the accounting characteristics of emerging assets have put forward new demands for goodwill measurement. Accounting standard setting institutions continue to explore the optimization of goodwill measurement methods, striving to better serve economic development, reflecting the cyclical characteristics of "accounting practice demand accounting theory innovation guidance practice (reviewed by practice)..." In 2001, the financial accounting standard setting agency in the United States released Regulation SFAS142, which required companies to conduct an annual impairment test on their goodwill value. Three years later, in 2004, the international accounting standard setting body issued the IFRS 3 standard, which is a similar measure used to regulate the tracking of goodwill. After implementing these suggested standards, people gradually realized the many drawbacks of the downward review process. In 2011, the high cost and complex operation of goodwill impairment testing sparked widespread discussion, which prompted US financial accounting standard setting agencies to attempt multiple times to reduce the complexity of the procedures. In 2013, when the international accounting standard setting body completed the later implementation evaluation, the public began to raise serious objections to the effectiveness and applicability of goodwill impairment testing, and demanded a return to the regular allocation of goodwill depreciation. Subsequently, in February 2015, the international accounting standards body recognized the urgency of unifying standards for measuring goodwill and initiated a research project aimed at exploring the debate between impairment testing and allocation methods, marking the beginning of a long-standing controversy. In the subsequent period, neither the international accounting standard setting agency nor the corresponding agency in the United States reached an agreement on the issue of continuous measurement of goodwill. In March 2020, the International Accounting Standards Agency released the latest research

paper on the issue of continuous measurement of goodwill (i.e. “Business Aggregation - Information Disclosure, Goodwill and Impairment” research paper). This document represents the most comprehensive exploration of this topic, mainly evaluating the efficiency of impairment testing, and examining whether it is appropriate to restart the amortization of goodwill over time, as well as the feasibility of simplifying impairment testing steps.

II. The Key Reason for the Difficulty in Subsequent Measurement of Goodwill - Divergence in Financial Reporting Objectives

The causes and effects are identified, but they are also intertwined. Therefore, when analyzing and evaluating goodwill, all these connections should not be ignored. To recognize the universality and objectivity of the relationship between goodwill and accounting standards, market environment, and policy orientation, only in this way can scientific research be conducted on goodwill based on a correct understanding. Only by grasping the main reasons and related influencing factors of the dilemma in measuring goodwill can accountants improve their awareness and foresight in goodwill practice activities.

There is a strong causal relationship between the subsequent measurement dilemma of goodwill and the divergence of current financial reporting objectives. Analyzing the conflicting accounting standards may lead to identifying the key to the problem. Although the establishment has a certain degree of preset and systematic nature, and the principles of formulating global financial statements take clear reporting objectives as the logical starting point, this starting point is by no means rigid and unchanging. Small fluctuations in the environment can affect its stance. Due to the ever-changing market conditions, groups with different demands for information have emerged, each holding vastly different expectations for the required information. This makes it easy for the understanding of goals to diverge and change in different environments, and cannot guarantee their consistency and stability. The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States continue to strive to create a conceptual framework with decision-making usefulness as the core objective. However, under various external influences, the two accounting institutions still need to maintain the basic characteristics and corresponding attributes of liability trusts. This compromise leads to a mixed and opposing theoretical system, causing a hundred schools of thought to argue on many established accounting standard issues. For example, it is this “potential contradiction” that has been significantly reflected in the subsequent measurement of goodwill. The key to addressing the issues faced in the subsequent measurement of goodwill may not lie in the technical differences in the methods adopted, but rather in the theoretical deficiencies inherent in the current financial reporting framework itself.

The evolution of the continuous evaluation method for goodwill valuation reflects to a certain extent the transformation of various theoretical ideas within the accounting conceptual framework. Through the evolution of the conceptual framework, the origin and reasons for the formation of goodwill evaluation methods can be traced. The transformation from fulfilling delegated responsibilities to emphasizing the usefulness of information for decision-making has always been a core theme that runs through the evolution process of conceptual frameworks. The institutions that formulate accounting standards have been striving to reduce the importance of fulfilling delegated responsibilities in accounting theory, attempting to construct a theoretical system with the sole purpose of “usefulness of information decision-making”. However, in the face of fierce protests from both inside and outside the industry, the relevant decisions ultimately took into account the elements of entrusted responsibility, maintaining factors such as reliability, prudence, and consideration of historical costs. This kind of compromise approach puts the conceptual framework in a situation where multiple ideas coexist and contradict each other, which also leads to the inability to unify views on many specific matters in accounting standards.

Taking the IASB 2020 discussion paper as an example, this article aims to provide a detailed and complete analysis of the discussion paper issued by the International Accounting Standards Board (IASB). However, the evaluation process constantly shows a dilemma: on one hand, we must adhere to the measurement standard of the usefulness of financial information, while on the other hand, we must consider the impact of different operational methods on assuming responsibility; While one party pursues the relevance of impairment testing, the other party encounters doubts about its credibility, timeliness, and other attributes. According to the current conceptual framework (2018), the practicality of decision-making is the only financial reporting objective. Therefore, in the initial section of the discussion document, the macro objective of continuing to measure goodwill research was clarified, which is to explore whether enterprises can disclose more valuable merger and acquisition related information to shareholders, thus establishing an evaluation orientation based on “decision-making practicality”. Nevertheless, the collision between various concepts and guidelines is still difficult to harmoniously unify. The coexistence of these diverse and even conflicting ideas has led to significant differences in the evaluation of continued measurement of goodwill. More importantly, at present, there is a lack of a unified and guiding theoretical framework, which often limits related research to individual concepts or specific issues, such as the “accounting hidden effect”, the asset nature of goodwill, and the simplification of impairment testing. This kind of exploration is essentially twice the result with half the effort, and we cannot break free from the constant hesitation between impairment and amortization strategies.

III. An Important Perspective on the Subsequent Measurement of Goodwill: Understanding the Essence of Accounting

In the 1980s, the accounting community explored the essence of accounting, with “information systems theory” and “management activity theory” becoming two mainstream viewpoints. Accounting scholars represented by Professor Yu Xuying introduced the “Information

Systems Theory” from the UK and the US, improved the basic understanding that “accounting is a business language”, and defined the essence of accounting as an economic information system. Based on the current situation, this viewpoint has not yet shown practical adaptability in China, and has not achieved the expected development results in the trajectory of China’s economic development. It has to some extent caused a disconnect between the growth of accounting and the economic, social and political background, and distorted the fundamental nature of accounting’s connection with the real society, which is inconsistent with the fundamental principles of dialectical materialism and historical materialism.

The economic impact involved in finance and accounting is obvious, and through the difficulty of evaluating goodwill in the later stage, it can be seen that the essential importance of finance and accounting is increasingly prominent and cannot be ignored. The current conceptual framework of financial accounting is limited to information systems theory, only studying and improving accounting issues from the perspective of accounting information, which is also an important reason for the current dilemma of subsequent measurement of goodwill. The preparation of the conceptual framework aims to build a theoretical basis for accounting standard formulation, but the actual content is too focused on mapping specific accounting functions, rather than building a complete accounting concept system, resulting in incomplete accounting functions. Accounting standards are not only the institutional framework that affects the preparation of financial statements, but also the key institutional pillar that maintains business efficiency and promotes sustained and healthy economic growth. In view of this, when analyzing the issue of goodwill, it is necessary to have a deeper insight into the economic essence reflected in accounting data and explore the underlying reasons for the problem of goodwill from a broader perspective, rather than just debating the choice of accounting measurement methods.

According to the concept of management activities, accounting is essentially a part of management behavior, rather than just an information transmission system. Its role is not only to reveal data, but more importantly, to manipulate and guide economic behavior. Therefore, accounting is not only a transmitter of information, but also plays a role in management. Therefore, research on accounting issues should not be limited to the perspective of accounting information, but should also explore the economic issues reflected behind the information, optimize and adjust, and play the control function of accounting. Moreover, accounting naturally has “dual functions” and “dual attributes”, namely reflecting functions and controlling functions, technical attributes and social attributes. Reflection is the foundation of control, and control is the purpose of reflection. The function of accounting is not only to reflect accounting information, but also to control economic activities. The control function of accounting is not limited to internal business management, but also includes the evaluation and governance of macroeconomic activities. Therefore, research on accounting issues should not only focus on whether this information is reliable or useful, but should also further consider why this information exists and whether such economic activities are problematic.

IV. Summary

The measurement problem of goodwill depreciation is related to both the accounting field and the economic field. The conceptual framework of treating accounting as an “information system” is based on “information system theory” and only delineates it within the field of technological application; The establishment and evaluation of standards are also limited to the scope of accounting information, focusing only on the “mapping function” of accounting, while ignoring its ability to evaluate and regulate economic behavior, and ignoring the “control function” of accounting. The essence of accounting and the economic essence it reflects have not been correctly positioned, which is the deep-seated reason why the rules for continuing to measure goodwill only address the symptoms rather than the root cause. To improve this conceptual framework and solve the problem of measuring goodwill, it is also necessary to deeply understand the core concept of “management activity theory” and seek answers to the problem from the essence of accounting.

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